

**REPORT OF THE AUDIT OF THE
MERCER COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2012**



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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Milward Dedman, Mercer County Judge/Executive
Members of the Mercer County Fiscal Court

The enclosed report prepared by Ray, Foley, Hensley & Company, PLLC, Certified Public Accountants, presents the financial statements of the governmental activities, business-type activities, and each major fund of Mercer County, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements.

We engaged Ray, Foley, Hensley & Company, PLLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Ray, Foley, Hensley & Company, PLLC evaluated Mercer County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen".

Adam H. Edelen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MERCER COUNTY FISCAL COURT

June 30, 2012

Ray, Foley, Hensley & Company, PLLC has completed the audit of the Mercer County Fiscal Court for fiscal year ended June 30, 2012.

We have issued unqualified opinions, based on our audit, on the governmental activities, business-type activities, and each major fund of Mercer County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$10,332,560 as of June 30, 2012. The fiscal court had unrestricted net assets of \$3,400,612 in its governmental activities as of June 30, 2012, with total net assets of \$10,067,172. In its business-type activities, total net cash and cash equivalents were \$213,754 with total net assets of \$265,388. The fiscal court had total debt principal as of June 30, 2012 of \$11,930,152 with \$755,152 due within the next year.

Report Comments:

2012-01 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Fund
2012-02 The Fiscal Court Should Improve Record Keeping For Payroll Transactions
2012-03 The Fiscal Court Should Improve Procedures Over Purchase Orders

Deposits:

The fiscal court and component units' deposits were insured and collateralized by bank securities or bonds.

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To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Milward Dedman, Mercer County Judge/Executive
Members of the Mercer County Fiscal Court

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Mercer County, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Mercer County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Mercer County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Mercer County, Kentucky, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mercer County, Kentucky's basic financial statements as a whole. The budgetary comparison information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Milward Dedman, Mercer County Judge/Executive
Members of the Mercer County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated December 14, 2012 on our consideration of Mercer County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2012-01 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Fund
- 2012-02 The Fiscal Court Should Improve Record Keeping For Payroll Transactions
- 2012-03 The Fiscal Court Should Improve Procedures Over Purchase Orders

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
December 14, 2012

MERCER COUNTY OFFICIALS

For The Year Ended June 30, 2012

Fiscal Court Members:

Milward Dedman	County Judge/Executive
Ronnie Sims	Magistrate
J.B. Claunch	Magistrate
Larry Peyton	Magistrate
Donnie Webb	Magistrate
Wayne T. Jackson	Magistrate
Dennis Holiday	Magistrate

Other Elected Officials:

Ted Dean	County Attorney
Cleo W. Baker Jr.	Jailer
Chris Horn	County Clerk
Beth Neal	Circuit Court Clerk
Ernie Kelty	Sheriff
David Best	Property Valuation Administrator
Sonny Ransdell	Coroner

Appointed Personnel:

Gayle Horn	County Treasurer
Sandy Sanders	Occupational Tax Collector
Billy Humphrey	Road Supervisor

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MERCER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2012

MERCER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2012

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 4,340,351	\$ 213,754	\$ 4,554,105
Note Receivable (Hospital Equipment)	35,152		35,152
Total Current Assets	<u>4,375,503</u>	<u>213,754</u>	<u>4,589,257</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress		24,634	24,634
Land and Land Improvements	367,384		367,384
Buildings	13,981,581	26,000	14,007,581
Machinery/Equipment	615,560	1,000	616,560
Vehicles	117,495		117,495
Infrastructure	<u>2,539,801</u>		<u>2,539,801</u>
Total Noncurrent Assets	<u>17,621,821</u>	<u>51,634</u>	<u>17,673,455</u>
Total Assets	<u>21,997,324</u>	<u>265,388</u>	<u>22,262,712</u>
LIABILITIES			
Current Liabilities:			
Bonds Payable	520,000		520,000
Financing Obligations Payable	<u>235,152</u>		<u>235,152</u>
Total Current Liabilities	<u>755,152</u>		<u>755,152</u>
Noncurrent Liabilities:			
Bonds Payable	10,850,000		10,850,000
Financing Obligations Payable	<u>325,000</u>		<u>325,000</u>
Total Noncurrent Liabilities	<u>11,175,000</u>		<u>11,175,000</u>
Total Liabilities	<u>11,930,152</u>		<u>11,930,152</u>
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	5,691,669	51,634	5,743,303
Restricted For:			
Roads	220,494		220,494
Debt Service	<u>754,397</u>		<u>754,397</u>
Unrestricted	<u>3,400,612</u>	<u>213,754</u>	<u>3,614,366</u>
Total Net Assets	<u>\$ 10,067,172</u>	<u>\$ 265,388</u>	<u>\$ 10,332,560</u>

The accompanying notes are an integral part of the financial statements.

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MERCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2012

MERCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,064,097	\$	\$ 281,061	\$
Protection to Persons and Property	1,295,556		243,044	
General Health and Sanitation	138,517	78,342	10,649	
Social Services	77,722			
Recreation and Culture	140,640			
Transportation Facilities and Services	4,761			
Roads	1,265,721		1,340,687	160,776
Other Transportation Services	650		61,784	
Interest on Long-Term Debt	429,627			914,491
Total Governmental Activities	5,417,291	78,342	1,937,225	1,075,267
Business-type Activities:				
Landfill	282,966	203,272	70,755	
Total Business-type Activities	282,966	203,272	70,755	
Total Primary Government	\$ 5,700,257	\$ 281,614	\$ 2,007,980	\$ 1,075,267

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Occupational Taxes

Net Profit Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Unrestricted Investment Earnings

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

MERCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2012
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,783,036)	\$	\$ (1,783,036)
(1,052,512)		(1,052,512)
(49,526)		(49,526)
(77,722)		(77,722)
(140,640)		(140,640)
(4,761)		(4,761)
235,742		235,742
61,134		61,134
484,864		484,864
(2,326,457)		(2,326,457)
	(8,939)	(8,939)
	(8,939)	(8,939)
(2,326,457)	(8,939)	(2,335,396)
949,462		949,462
78,092		78,092
143,352		143,352
1,148,829		1,148,829
168,070		168,070
212,509		212,509
110,888		110,888
188,771	5,917	194,688
38,314	164	38,478
3,038,287	6,081	3,044,368
711,830	(2,858)	708,972
9,355,342	268,246	9,623,588
\$ 10,067,172	\$ 265,388	\$ 10,332,560

The accompanying notes are an integral part of the financial statements.

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MERCER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2012

MERCER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2012

	General Fund	Road Fund	LGEA Fund	Public Properties Corporation Fund	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 2,757,110	\$ 608,350	\$ 220,494	\$ 754,397	\$ 4,340,351
Total Assets	<u>2,757,110</u>	<u>608,350</u>	<u>220,494</u>	<u>754,397</u>	<u>4,340,351</u>
FUND BALANCES					
Restricted for:					
Roads			220,494		220,494
Debt Service				754,397	754,397
Assigned to:					
Roads		608,350			608,350
Unassigned:	<u>2,757,110</u>				<u>2,757,110</u>
Total Fund Balances	<u>\$ 2,757,110</u>	<u>\$ 608,350</u>	<u>\$ 220,494</u>	<u>\$ 754,397</u>	<u>\$ 4,340,351</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 4,340,351
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	21,947,146
Accumulated Depreciation	(4,325,325)
Receivable - Hospital Grant	35,152
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(560,152)
Bonds	<u>(11,370,000)</u>
Net Assets Of Governmental Activities	<u>\$ 10,067,172</u>

The accompanying notes are an integral part of the financial statements.

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MERCER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

MERCER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

	General Fund	Road Fund	LGEA Fund	Public Properties Corporation Fund	Total Governmental Funds
REVENUES					
Taxes	\$ 2,700,314	\$	\$	\$	\$ 2,700,314
Excess Fees	110,888				110,888
Licenses and Permits	5,897				5,897
Intergovernmental	534,754	1,431,209	132,038	914,491	3,012,492
Charges for Services	78,342				78,342
Miscellaneous	161,552	21,322			182,874
Interest	16,046	3,779	831	17,658	38,314
Total Revenues	<u>3,607,793</u>	<u>1,456,310</u>	<u>132,869</u>	<u>932,149</u>	<u>6,129,121</u>
EXPENDITURES					
General Government	858,647	7,200	20,000		885,847
Protection to Persons and Property	1,293,925	962			1,294,887
General Health and Sanitation	115,268	29,077			144,345
Social Services	56,687		2,000		58,687
Recreation and Culture	138,280				138,280
Transportation Facilities and Services		4,761			4,761
Roads		1,283,376	121,888		1,405,264
Other Transportation Services		650			650
Debt Service	352,415			907,212	1,259,627
Capital Projects				2,930,014	2,930,014
Administration	929,783	186,083	1	2,120	1,117,987
Total Expenditures	<u>3,745,005</u>	<u>1,512,109</u>	<u>143,889</u>	<u>3,839,346</u>	<u>9,240,349</u>
Excess (Deficiency) of Revenues					
Expenditures Before Other					
Financing Sources (Uses)	<u>(137,212)</u>	<u>(55,799)</u>	<u>(11,020)</u>	<u>(2,907,197)</u>	<u>(3,111,228)</u>
Other Financing Sources (Uses)					
Transfers In	65,809				65,809
Transfers Out				(65,809)	(65,809)
Total Other Financing Sources (Uses)	<u>65,809</u>			<u>(65,809)</u>	
Net Change in Fund Balances	(71,403)	(55,799)	(11,020)	(2,973,006)	(3,111,228)
Fund Balances - Beginning	2,828,513	664,149	231,514	3,727,403	7,451,579
Fund Balances - Ending	<u>\$ 2,757,110</u>	<u>\$ 608,350</u>	<u>\$ 220,494</u>	<u>\$ 754,397</u>	<u>\$ 4,340,351</u>

The accompanying notes are an integral part of the financial statements.

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**MERCER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2012

MERCER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds \$ (3,111,228)

Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities, the Cost of Those Assets Are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay 3,663,152

Depreciation Expense (665,090)

Assets Disposed Of, Net Book Value (5,004)

Payment of Receivable Provides for Current Financial Resources to Government Funds, While at the Government-Wide Level, a Reduction of the Receivable Occurs. These Transactions Have No Effect on Net Assets (67,727)

Financing Obligation Proceeds

Lease and Bond Principal Payments Are Expensed in the Governmental Funds as a use of Current Financial Resources.

Financing Obligations Principal Payments 387,727

Bond Principal Payments 510,000

Change in Net Assets of Governmental Activities \$ 711,830

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MERCER COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2012

MERCER COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2012

	Business-Type Activities - Enterprise Fund
	Landfill Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 213,754
Total Current Assets	<u>213,754</u>
Noncurrent Assets:	
Capital Assets	
Construction In Progress	24,634
Buildings/Improvements	50,000
Machinery/Equipment	12,000
Less Accumulated Depreciation	<u>(35,000)</u>
Total Noncurrent Assets	<u>51,634</u>
Total Assets	<u>265,388</u>
Net Assets	
Invested in Capital Assets,	
Net of Related Debt	51,634
Unrestricted	213,754
Total Net Assets	<u><u>\$ 265,388</u></u>

The accompanying notes are an integral part of the financial statements.

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MERCER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

MERCER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

	Business-Type Activities - Enterprise Fund
	Landfill Fund
Operating Revenues	
Host/User Fees	\$ 143,521
Recycling Grant	5,000
Recycling Receipts	59,751
Reimbursements	65,755
Other Receipts	5,917
Total Operating Revenues	<u>279,944</u>
Operating Expenses	
Depreciation Expense	805
Dumpster Services	112,923
Engineering Services	4,866
Maintenance and Grounds	51,092
Miscellaneous	3,228
Personnel Costs	80,680
Recycling Services	19,442
Supplies and Materials	3,661
Uniforms	1,432
Utilities	4,837
Total Operating Expenses	<u>282,966</u>
Operating Income (Loss)	<u>(3,022)</u>
Nonoperating Revenues	
Interest Income	<u>164</u>
Total Nonoperating Revenues (Expenses)	<u>164</u>
Change In Net Assets	(2,858)
Total Net Assets - Beginning	268,246
Total Net Assets - Ending	<u><u>\$ 265,388</u></u>

The accompanying notes are an integral part of the financial statements.

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MERCER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

MERCER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

	Business-Type Activities - Enterprise Fund
	Landfill Fund
Cash Flows From Operating Activities	
Cash Receipts From Customers for Sales	\$ 203,272
Cash Receipts From Others	76,672
Cash Payments For Dumpster Services	(112,923)
Cash Payments For Engineering Services	(4,866)
Cash Payments For Maintenance and Grounds	(51,092)
Cash Payments For Miscellaneous	(3,228)
Cash Payments For Personnel Costs	(80,680)
Cash Payments For Recycling Services	(19,442)
Cash Payments For Supplies and Materials	(3,661)
Cash Payments For Uniforms	(1,432)
Cash Payments For Utilities	(4,837)
Net Cash Provided (Used) By Operating Activities	<u>(2,217)</u>
Cash Flows From Investing Activities	
Purchases of Construction In Progress	(24,634)
Interest Earned	164
Net Cash Provided (Used) By Investing Activities	<u>(24,470)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(26,687)
Cash and Cash Equivalents - July 1	<u>240,441</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 213,754</u></u>

The accompanying notes are an integral part of the financial statements.

MERCER COUNTY
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2012
(Continued)

	Business-Type Activities - Enterprise Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	Landfill Fund
Operating Income (Loss)	\$ (3,022)
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Depreciation Expense	<u>805</u>
Net Cash Provided (Used) By Operating Activities	<u><u>\$ (2,217)</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Mercer County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Mercer County Public Properties Corporation

The Board of Directors of the Mercer County Public Properties Corporation (Corporation) are also the members of the Mercer County Fiscal Court. The Corporation was created solely for the benefit of the Fiscal Court per KRS 58.180 to act as an agent in the acquisition and financing of any public project and cannot be sued in its own name without recourse to the Mercer County Fiscal Court. The Fiscal Court has access to the Corporation's resources, is legally obligated to finance the debts, or provide financial support to the corporation. The Corporation is financially accountable to the Fiscal Court. This component unit is blended within the financial statements of the County.

C. Mercer County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Mercer County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Mercer County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The purpose of this fund is to account for funds earmarked for economic development. The primary sources of revenue for this fund are from the state. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Public Properties Corporation Fund - This fund accounts for the funds used for the construction of the Mercer County Judicial Center. The Public Properties Corporation is a blended component of the County. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Special Revenue Funds:

The Road Fund and Local Government Economic Assistance Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of significant restricted and/or committed revenue sources and expenditures that are legally restricted or committed for specific purposes.

Capital Projects Fund:

The Public Properties Corporation Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities and purchase of capital assets.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Landfill Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Landfill Fund - The Landfill Fund operations are authorized by the Fiscal Court. The Landfill Fund includes post-closure maintenance and monitoring costs of the Landfill after final closure. Also included in this fund is the collection and disposal of garbage and recycling materials from residents of Mercer County.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Threshold	(Years)
Land Improvements	\$ 12,500	10-45
Buildings and Building Improvements	\$ 25,000	10-60
Machinery and Equipment	\$ 5,000	3-20
Vehicles	\$ 5,000	3-20
Infrastructure	\$ 10,000	10-40

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the county has designated the County Judge/Executive to carry out the intent of the fiscal court.

It is the policy of the County to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A budget was not prepared for the Public Properties Corporation. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Mercer County Fiscal Court: North Mercer Water District and the Mercer County Public Library.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Mercer County Fiscal Court: Mercer County Industrial Development Authority, Anderson/Dean Park Board, and Greater Harrodsburg/Mercer County Planning and Zoning Commission.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2012, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 367,384	\$	\$	\$ 367,384
Construction In Progress	7,772,169	2,930,014	(10,702,183)	
Total Capital Assets Not Being Depreciated	8,139,553	2,930,014	(10,702,183)	367,384
Capital Assets, Being Depreciated:				
Buildings	3,960,171	10,702,183		14,662,354
Machinery/Equipment	1,270,672	8,250		1,278,922
Vehicles	724,335	68,000	(66,932)	725,403
Infrastructure	4,256,195	656,888		4,913,083
Total Capital Assets Being Depreciated	10,211,373	11,435,321	(66,932)	21,579,762
Less Accumulated Depreciation For:				
Buildings	(610,398)	(70,375)		(680,773)
Machinery/Equipment	(601,922)	(61,440)		(663,362)
Vehicles	(625,155)	(44,681)	61,928	(607,908)
Infrastructure	(1,884,688)	(488,594)		(2,373,282)
Total Accumulated Depreciation	(3,722,163)	(665,090)	61,928	(4,325,325)
Total Capital Assets, Being Depreciated, Net	6,489,210	10,770,231	(5,004)	17,254,437
Governmental Activities Capital Assets, Net	<u>\$ 14,628,763</u>	<u>\$ 13,700,245</u>	<u>\$ (10,707,187)</u>	<u>\$ 17,621,821</u>

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 55,259
Protection to Persons and Property	38,419
General Health and Sanitation	2,672
Social Services	19,035
Recreation and Culture	2,360
Roads, Including Depreciation of General Infrastructure Assets	<u>547,345</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 665,090</u>

Capital asset activity for Business-Type Activities for the year ended June 30, 2012 was as follows:

Business-Type Activities:	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Construction In Progress	\$	\$ 24,634	\$	\$ 24,634
Total Capital Assets Not Being Depreciated		24,634		24,634
Capital Assets, Being Depreciated:				
Buildings/Improvements	\$ 50,000	\$	\$	\$ 50,000
Machinery/Equipment	12,000			12,000
Total Capital Assets Being Depreciated	62,000			62,000
Less Accumulated Depreciation For:				
Buildings/Improvements	(23,200)	(800)		(24,000)
Machinery/Equipment	(10,995)	(5)		(11,000)
Total Accumulated Depreciation	(34,195)	(805)		(35,000)
Total Capital Assets, Being Depreciated, Net	27,805	(805)		27,000
Business-Type Activities Capital Assets, Net	\$ 27,805	\$ 23,829	\$	\$ 51,634

Depreciation expense was charged to functions of the Business-Type Activities as follows:

Business-Type Activities

General Health and Sanitation	<u>\$ 805</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 805</u>

Note 4. Long-term Debt

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

A. First Mortgage Revenue Bonds - Judicial Center

On August 1, 2009, the Mercer County Public Properties Corporation issued \$12,385,000 of First Mortgage Revenue Bonds. The proceeds from this issuance provides for the financing of the cost of acquisition, development and construction of a new courthouse facility, located within the city, to be used and leased by the Administrative Office of the Courts (AOC); pay the principal and interest of the First Mortgage Revenue Bond Anticipation Notes; pay capitalized and/or accrued interest, if any; and pay the cost of issuance incurred with respect to the issuance of bonds. Principal payments are due annually on August 1, and interest, which varies from 1.2% to 4.125%, is payable semiannually on February 1 and August 1. The outstanding principal balance as of June 30, 2012 was \$11,370,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2013	\$ 520,000	\$ 388,962
2014	530,000	378,982
2015	540,000	367,472
2016	555,000	354,047
2017	570,000	338,282
2018-2022	3,130,000	1,402,541
2023-2027	3,780,000	754,918
2028-2029	1,745,000	72,703
Totals	<u>\$ 11,370,000</u>	<u>\$ 4,057,907</u>

Also on August 1, 2009, Mercer County entered into a lease agreement with the Administrative Office of the Courts (AOC) which states that the AOC agrees to pay 100% of the debt service requirements. The AOC has an exclusive option to renew this agreement from biennium to biennium (July1/June 30) for periods of two years at a time.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 4. Long-term Debt (Continued)

B. Hospital Equipment/Note Receivable

In October 2007, the Mercer County Fiscal Court entered into a five-year lease agreement with the Kentucky Association of Counties Leasing Trust, in the amount of \$315,000 for the purchase of hospital equipment for use by James B. Haggin Memorial Hospital. Mercer County Fiscal Court and James B. Haggin Memorial Hospital entered into a sublease, with the hospital agreeing to make all payments required by the lease agreement. The interest rate is 4.111%. Principal and interest are due monthly. The balance outstanding as of June 30, 2012 was \$35,152. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2013	\$ 35,152	\$ 554
Totals	<u>\$ 35,152</u>	<u>\$ 554</u>

C. Gateway Building

In September 2008, the Mercer County Fiscal Court entered into a six-year lease agreement with the Kentucky Association of Counties Leasing Trust, in the amount of \$1,700,000 to finance the construction and renovation of an office building to be used by the County. Principal payments are due annually on March 20, and interest, at a variable rate, is due monthly. The interest rate as of June 30, 2012 was 3.989%. This agreement will cease on September 20, 2013. The outstanding principal balance as of June 30, 2012 is \$525,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2013	\$ 200,000	\$ 20,743
2014	<u>325,000</u>	<u>3,620</u>
Totals	<u>\$ 525,000</u>	<u>\$ 24,363</u>

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 5. Change in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 11,880,000	\$	\$ 510,000	\$11,370,000	\$ 520,000
Financing Obligations	947,879		387,727	560,152	235,152
Governmental Activities					
Long-term Liabilities	<u>\$ 12,827,879</u>	<u>\$</u>	<u>\$ 897,727</u>	<u>\$11,930,152</u>	<u>\$ 755,152</u>

Note 6. Interlocal Cooperation Agreement

Mercer County has entered into an Interlocal Cooperation Agreement with Boyle County to share in the cost of a regional jail facility. The facility is owned by Boyle County. Mercer County agreed to pay a percentage, not below 35%, not to exceed 50%, of the yearly costs in exchange to the use of the facility for Mercer County prisoners.

Note 7. Solid Waste Landfill

Mercer County Fiscal Court (the County) operated a landfill, which ceased operations on June 30, 1992. The County initiated closure procedures in April 1991. Closure costs were estimated to be \$52,700 and the County completed the steps necessary to close the landfill. The County believes that it has met all federal, state, and local laws and regulations in regard to the closure of the landfill. Post closure care consists primarily of groundwater monitoring and landscape maintenance. The County is required to file reports with the appropriate regulatory agencies regarding the findings and groundwater monitoring activities. Post closure costs are included in the Landfill Fund for the fiscal year June 30, 2012. Mercer County expended approximately \$52,221 for post closure costs. Future costs are estimated to be the same as what was expended this fiscal year and have been budgeted in the Landfill Fund. Inflation, deflations, technology or applicable laws and regulations could affect these costs.

Note 8. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.96 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 35.76 percent.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 8. Employee Retirement System (Continued)

The county's contribution for FY 2010 was \$263,336, FY 2011 was \$279,462, and FY 2012 was \$315,985.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 9. Deferred Compensation

The Mercer County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 10. Insurance

For the fiscal year ended June 30, 2012, Mercer County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Subsequent Events

Mercer County has evaluated and considered the need to recognize or disclose subsequent events through December 14, 2012, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2012, have not been evaluated by the County.

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MERCER COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information - Modified Cash Basis

For The Year Ended June 30, 2012

MERCER COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information - Modified Cash Basis

For The Year Ended June 30, 2012

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,295,500	\$ 1,295,500	\$ 1,383,415	\$ 87,915
Excess Fees	78,763	78,763	110,888	32,125
Licenses and Permits	6,000	6,000	5,897	(103)
Intergovernmental Revenue	1,637,550	1,637,550	427,462	(1,210,088)
Charges for Services	76,000	76,000	78,342	2,342
Miscellaneous	82,500	82,500	138,558	56,058
Interest	10,500	10,500	6,607	(3,893)
Total Revenues	3,186,813	3,186,813	2,151,169	(1,035,644)
EXPENDITURES				
General Government	1,648,706	1,722,736	812,676	910,060
Protection to Persons and Property	505,120	512,926	429,334	83,592
General Health and Sanitation	140,750	141,717	115,268	26,449
Social Services	60,600	66,147	56,687	9,460
Recreation and Culture	156,900	174,950	138,280	36,670
Debt Service	1,327,000	1,327,000	352,415	974,585
Administration	1,504,150	1,379,136	929,785	449,351
Total Expenditures	5,343,226	5,324,612	2,834,445	2,490,167
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(2,156,413)	(2,137,799)	(683,276)	1,454,523
OTHER FINANCING SOURCES (USES)				
Transfers Out	(844,025)	(844,025)	(685,000)	159,025
Transfers In	1,185,438	1,185,438	1,315,809	130,371
Borrowed Money	965,000	965,000		(965,000)
Total Other Financing Sources (Uses)	1,306,413	1,306,413	630,809	(675,604)
Net Changes in Fund Balance	(850,000)	(831,386)	(52,467)	778,919
Fund Balance - Beginning	850,000	850,000	1,216,417	366,417
Fund Balance - Ending	\$ 0	\$ 18,614	\$ 1,163,950	\$ 1,145,336

MERCER COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information - Modified Cash Basis
For The Year Ended June 30, 2012
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,545,313	\$ 1,545,313	\$ 1,431,209	\$ (114,104)
Miscellaneous	25,000	25,000	21,322	(3,678)
Interest	5,200	5,200	3,779	(1,421)
Total Revenues	<u>1,575,513</u>	<u>1,575,513</u>	<u>1,456,310</u>	<u>(119,203)</u>
EXPENDITURES				
General Government	9,700	9,700	7,200	2,500
Protection to Persons and Property	1,200	1,200	962	238
General Health and Sanitation	29,600	29,600	29,077	523
Transportation Facilities and Services	7,000	7,000	4,761	2,239
Roads	1,623,273	1,710,009	1,283,376	426,633
Other Transportation Facilities and Services	700	700	650	50
Capital Projects	20,000	20,000		20,000
Administration	400,250	332,128	186,083	146,045
Total Expenditures	<u>2,091,723</u>	<u>2,110,337</u>	<u>1,512,109</u>	<u>598,228</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(516,210)</u>	<u>(534,824)</u>	<u>(55,799)</u>	<u>479,025</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	(58,944)	(58,944)		58,944
Total Other Financing Sources (Uses)	<u>(58,944)</u>	<u>(58,944)</u>		<u>58,944</u>
Net Changes in Fund Balance	(575,154)	(593,768)	(55,799)	537,969
Fund Balance - Beginning	<u>575,154</u>	<u>575,154</u>	<u>664,149</u>	<u>88,995</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (18,614)</u>	<u>\$ 608,350</u>	<u>\$ 626,964</u>

MERCER COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information - Modified Cash Basis
For The Year Ended June 30, 2012
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 120,000	\$ 120,000	\$ 132,038	\$ 12,038
Interest	1,000	1,000	831	(169)
Total Revenues	121,000	121,000	132,869	11,869
EXPENDITURES				
General Government	20,000	20,000	20,000	
Social Services	3,000	3,000	2,000	1,000
Roads	125,000	125,000	121,888	3,112
Administration	200	200	1	199
Total Expenditures	148,200	148,200	143,889	4,311
Net Changes in Fund Balance	(27,200)	(27,200)	(11,020)	16,180
Fund Balance - Beginning	27,200	27,200	231,514	204,314
Fund Balance - Ending	\$ 0	\$ 0	\$ 220,494	\$ 220,494

MERCER COUNTY
NOTES TO OTHER INFORMATION

June 30, 2012

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Reconciliation of the General Fund

Total Revenues - Budgetary Basis	\$ 2,151,169
To adjust for Jail Fund Revenues	114,641
To adjust for Payroll and Net Profit Revenues	1,341,983
Total Revenues - Modified Cash Basis	<u>\$ 3,607,793</u>
 Total Expenditures - Budgetary Basis	 \$ 2,834,445
To adjust for Jail Fund Expenditures	864,589
To adjust for Payroll and Net Profit Revenues	45,971
Total Expenditures - Modified Cash Basis	<u>\$ 3,745,005</u>
 Total Other Financing Sources and Uses - Budgetary Basis	 \$ 630,809
To adjust for Jail Fund Transfers	685,000
To adjust for Payroll and Net Profit Transfers	(1,250,000)
Total Other Financing Sources and Uses - Modified Cash Basis	<u>\$ 65,809</u>
 Total Fund Budget - Beginning Budgetary Basis	 \$ 1,216,417
To adjust for Jail Fund Beginning Balance	679,175
To adjust for Payroll and Net Profit Beginning Balance	932,921
Total Fund Balance - Beginning - Modified Cash Basis	<u>\$ 2,828,513</u>
 Total Fund Balance - Ending - Budgetary Basis	 \$ 1,163,950
To adjust for Jail Fund Ending Balance	614,227
To adjust for Payroll and Net Profit Ending Balance	978,933
Total Fund Balance - Ending - Modified Cash Basis	<u>\$ 2,757,110</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Milward Dedman, Mercer County Judge/Executive
Members of the Mercer County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Mercer County, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 14, 2012. Mercer County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Mercer County Fiscal Court is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Mercer County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mercer County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mercer County Fiscal Court's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Mercer County's financial statements as of and for the year ended June 30, 2012, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendation as items 2012-01, 2012-02 and 2012-03.

The Mercer County Judge/Executive's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Judge/Executive responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government, and is not intended to be and should not be used by anyone other than these specified parties.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company
December 14, 2012

**MERCER COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2012

**MERCER COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2012

STATE LAWS AND REGULATIONS

2012-01 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Fund

The Fiscal Court is financially accountable and legally obligated for the debt of the Public Properties Corporation (PPC). Unless otherwise specified by statute, the handling of these funds should be in accordance with the requirements for handling all county funds. Since the PPC is reported as a blended component unit of the county, the Fiscal Court should maintain proper documentation for all activity of the PPC. KRS 68.210, as prescribed by the state local finance officer, includes, but is not limited to; manual receipts and disbursements journals, performing monthly bank reconciliations and preparing an annual financial statement.

During our audit, we noted the Fiscal Court failed to prepare receipts and disbursements ledgers, bank reconciliations, and financial statements for the fiscal year ended June 30, 2012.

Failure to maintain proper documentation and failure to provide the proper oversight could result in errors going undetected. We recommend that the Fiscal Court ensure that all bank statements are reconciled monthly and that receipts and disbursements ledgers and annual financial statements are prepared in accordance with KRS 68.210 as described above. We further recommend that the Fiscal Court maintain supporting documentation for all expenditures and ensure that these bills are paid timely.

County Judge/Executive's Response: We will prepare and maintain manual receipts and disbursements ledgers, perform monthly bank reconciliations, and prepare an Annual Financial Statement for the Public Properties Corporation.

2012-02 The Fiscal Court Should Improve Record Keeping For Payroll Transactions

The Fiscal Court is required to keep employee records on file in accordance with KRS 337.320. Compliance includes maintaining records pertaining to the amount paid each pay period to each employee, the hours worked by each employee, and other such information as the commissioner requires.

During our test of payroll, we noted one employee that was paid without a time sheet. In addition, there were three other instances identified where either the employee or their supervisor had not signed their time sheet.

Failure to obtain proper documentation and approval on employee time records could result in incorrect amounts being paid to employees. We recommend that the person preparing the payroll review all time sheets for completeness. This will ensure the existence that the work was performed and was properly authorized.

County Judge/Executive's Response: The payroll clerk will be instructed to maintain personnel records concerning hours worked by each employee and list vacation and sick leave balances on each paycheck. The Clerk will also check the time sheets for completeness and a signature by their supervisor. All employees should maintain a time sheet.

MERCER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2012
(Continued)

STATE LAWS AND REGULATIONS (Continued)

2012-03 The Fiscal Court Should Improve Procedures Over Purchase Orders

The Department for Local Government (DLG) Budget Manual states “purchases shall not be made prior to approval by the County Judge/Executive (or designee) or department head. Purchase requests shall indicate proper appropriation account number to which the claim will be posted. Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.” In addition, a purchase order journal should contain a “daily, chronological listing of all purchase orders issued. The listing is the book of original entry for all county purchases. The journal should indicate the purchase order number, issue approved by appropriation code to where the payment will be posted, vendor name, date invoice is received, amount of invoice, date claim was reviewed by Fiscal Court, date paid and amount paid.”

During our testing of expenditures it was noted that no purchase orders were attached to the original invoices. Purchase orders were not located on most expenditures that were tested. A purchase order listing was compiled at the end of the month; however, it was incomplete due to either purchase orders not being issued or the purchase orders were not filled out completely. Purchase orders were attached to supporting documentation, but never consistently compared to original invoices prior to payment. All purchase orders and supporting documentation were grouped by month and filed.

Failure to maintain appropriate records for purchase orders could result in incorrect amounts being paid. It is recommended that the Fiscal Court require purchase orders be obtained prior to items being ordered or services received to determine if adequate funds and budget appropriation are available for the purchase. Purchase orders should be completely filled out at the time of issuance. Amounts are required for the Fiscal Court to complete an accurate encumbrance listing for the financial statements. Additionally, it is recommended that the purchase order listing be expanded to comply with the DLG Budget Manual requirements.

County Judge/Executive's Response: Purchase Orders will be attached to the original invoice before payment. Purchase Orders will be completely filled out at the time of issuance. We will improve the daily listing of our Purchase Order Ledger.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

MERCER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2012**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MERCER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2012

The Mercer County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in dark ink, appearing to read "W. Richmond Patton", is written over a horizontal line.

County Judge/Executive

A handwritten signature in dark ink, appearing to read "Gayle Horn", is written over a horizontal line.

County Treasurer

